COOL

Canadian Obas Oil Limited

Annual Report 1977

Canadian Obas Oil Limited

EXECUTIVE OFFICES
940 Aquitaine Tower
540 - 5th Avenue S.W.
Calgary, Alberta
T2P 0M2

OFFICERS
Joseph Sabo, President
Robert G. Smith, Secretary-Treasurer

DIRECTORS
Joseph Sabo
President, Canadian Obas Oil Limited, Calgary
Robert G. Smith
President, Vanir Construction Services Ltd., Calgary
Frederick T. Cousins
President, Canadian Kelvin Resources Ltd., Calgary
Donald J. Quinn
President, Calgary Crude Oil Limited, Calgary

TRANSFER AGENT & REGISTRAR
Montreal Trust Co.
411 - 8th Avenue S.W.
Calgary, Alberta
T2P 1E7

BANKERS
Bank of Montreal
Main Branch
140 - 8th Avenue S.W.
Calgary, Alberta
T2P 1B3

SOLICITORS
Burstall, Clarke, Jones & Coady
1200 Aquitaine Tower
540 - 5th Avenue S.W.
Calgary, Alberta
T2P 0M2

AUDITORS
Arthur Andersen & Co.
7th Floor, 335 - 8th Avenue S.W.
Calgary, Alberta
T2P 1C9

CAPITALIZATION
Authorized 5,000,000 No par value
Issued 2,111,610

Annual Meeting

The Annual Meeting of Shareholders of Canadian Obas Oil Limited will be held in the Board Room of Montreal Trust Co., 411 - 8th Avenue S.W., Calgary, Alberta, at 10:00 a.m. on Friday, June 3, 1977.

Formal notice of this meeting and Proxy material are enclosed.

Stock Trading

The shares of Canadian Obas Oil Limited are listed on the Alberta Stock Exchange and trade under the symbol of "CIB". During the year ended December 31, 1976 a total of 498,810 shares traded from a low of $1.50 to a high of $2.75 per share.

On December 31, 1976 Canadian Obas Oil Limited had 241 registered shareholders.

President's Report

TO THE SHAREHOLDERS

On behalf of the Board of Directors of Canadian Obas Oil Limited, I am pleased to present the Company's Fifth Annual Report and the Audited Financial Statements for the eight months ended January 31, 1977.

It is with regret that we announce the resignation of Mr. Robert B. Nimmon from the Board of Directors of the Company. After one and one-half years of service on the Board and major contributions in financial planning, Mr. Nimmon has left Calgary to establish his own business. We wish him well in his new venture.

The Financial Statements in this Report reflect a potential for excellent growth. Revenue before royalties was \$316,000 for the eight month period, compared to \$126,000 for the full twelve month period of our last Annual Report. Gross revenue was averaging \$63,000 per month at the end of the shortened fiscal year, far above the average of \$25,000 per month at the beginning of the period. In addition to these revenues, our Misty Lake oil wells have recently gone on production and there will be approximately \$24,000 per month added from our Forty Mile Coulee gas production, beginning June 1977.

The Company participated in more than 35 development wells in calendar 1976 to generate cash flow under gas sales contracts which had been negotiated in previous years. With the unavailability of new gas sales contracts, high-cost and high-risk exploration expenditures did not offer the same potential return on invested money as that available by completing development of existing proven reserves.

In following the aggressive program to develop cash flow from production, the Company spent \$673,000 on oil and gas development during the eight month period covered by this Report, approximately double that of the previous twelve months. As the expenditures were on proven revenue-producing development, we were able to expand our bank borrowing to cover the financing. The indicated working capital deficiency of \$320,000 at January 31, 1977 reflects a current classification of our \$22,653 monthly bank repayments — these are more than covered by the present cash flow. Our commitment of funds to bring the Forty Mile Coulee and Misty Lake properties to a point of generating cash returns and to increase gas production at Wintering Hills will be approximately \$200,000.

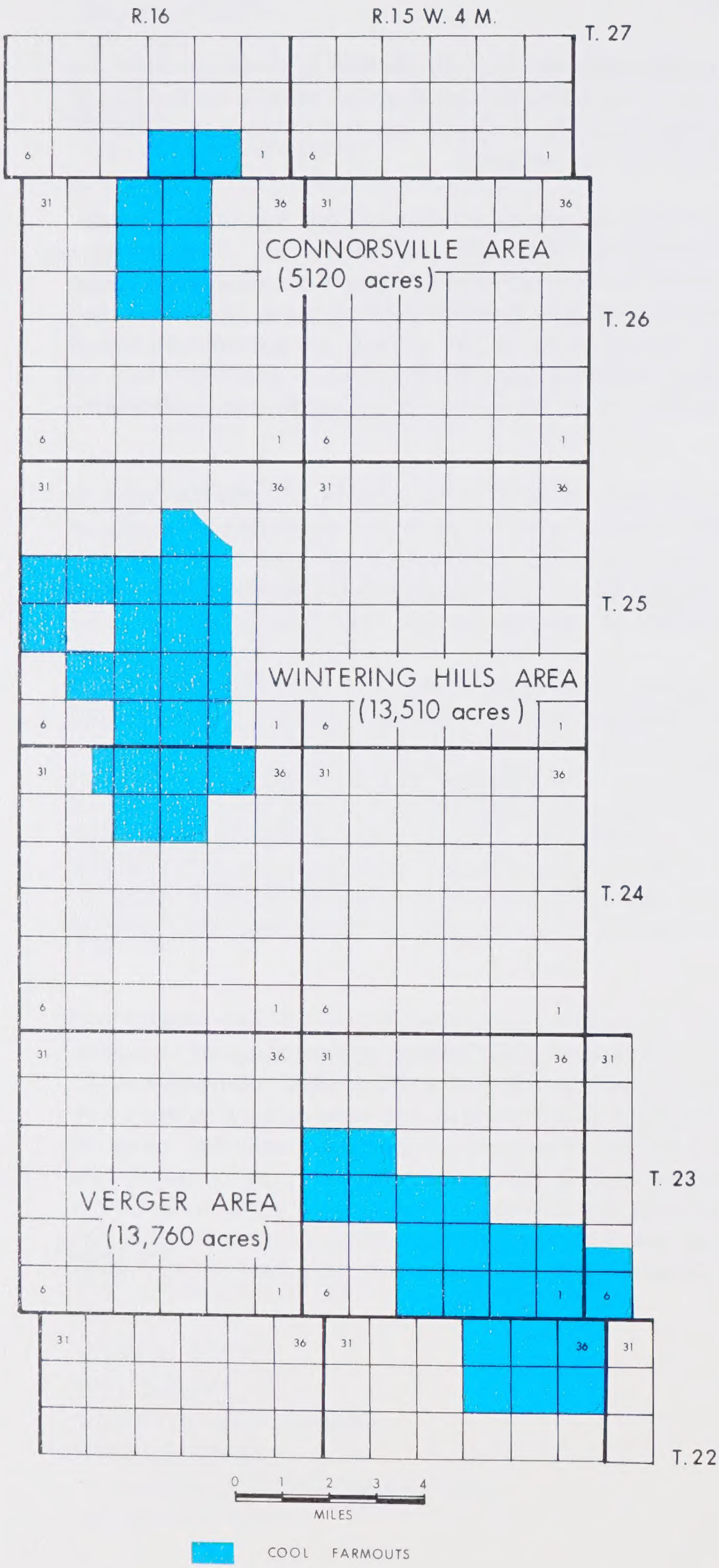
As in the past, we will continue to review and evaluate new oil and natural gas prospects, but any new prospects will have to offer better overall returns to justify diversion of funds from current development commitments which offer relatively certain and early cash return. Lack of marketing opportunities for new natural gas in the immediate future certainly adds to the cost of any risk undertaken and that must be weighed against potential return. As the cash is generated from our present properties and as our bank indebtedness is reduced, the Company will be in a position to select from several more romantic-sounding, but nonetheless speculative, prospects available. We would, of course, expect that potential returns will justify the risks in any such consideration.

Joseph Sabo
President

May 2, 1977
Calgary, Alberta, Canada

Canadian Obas Oil Limited

Exploration and Development



CONNORSVILLE

There has been no activity on our Connorsville properties during the past year and we presently have no plans for any capital expenditure during the coming year. The Company retains its 25 percent working interest in the 5,120 acres and the two Milk River - Medicine Hat gas wells.

WINTERING HILLS

There were 15 wells drilled in this area in 1976, bringing the total to 19 on the 13,510 acres in which Canadian Obas Oil Limited has a 50 percent working interest. All wells have natural gas in the Milk River and Medicine Hat formations, with a further three wells producing from the Viking formation and one from the Belly River formation. The Medicine Hat production rates have been disappointing, with productivity approximately one-half the rate of wells in the Verger area to the south. However, we expect that the Viking sand production will enable plant operation at 3 million cubic feet per day.

We have engaged an engineering consultant to evaluate our production facilities for the possible addition of a small compressor to increase production and delivery rates to the Verger plant. Our present plans for the area include the drilling of three wells to the Viking sand immediately after the spring break. The company's share of the capital expenditure would approximate $150,000.

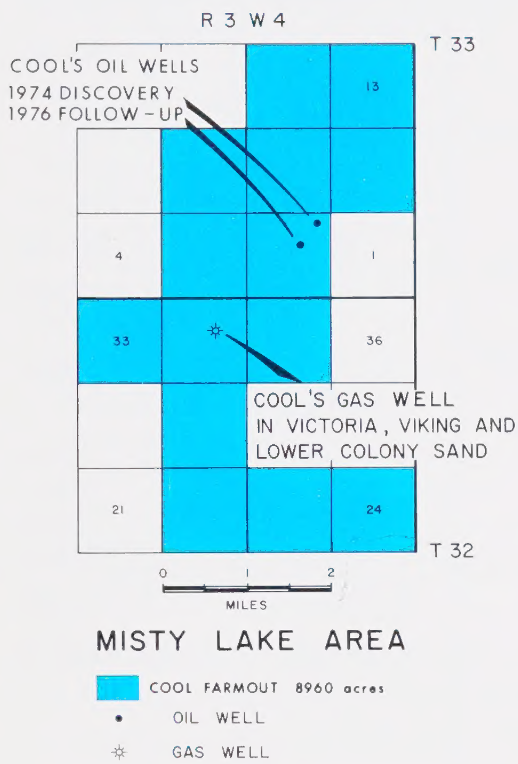
VERGER

Canadian Obas Oil Limited has a 23.75 percent interest in 13,760 gross acres in this area. A total of 44 wells have been drilled and completed, 30 of these during calendar 1976, with production from the Medicine Hat, Ellerslie and Basal Quartz zones. Natural gas production from the field is now averaging 5 million cubic feet per day. The field still has a number of wells shut in due to the limited capacity of the plant and each of the 44 wells has gas present in the Milk River zone. This additional natural gas will be available for production as depletion takes place on presently producing wells.

At this time there are no further capital expenditures planned for this area.

SUMMARY OF ALBERTA OIL AND GAS PROPERTIES at April 30, 1977

Area	Gross Acres	Net Acres
Verger	13,760	3,268
Wintering Hills	13,510	6,755
Connorsville	5,120	1,280
Misty lake	8,960	2,240
Forty Mile	3,840	960
Totals	45,190	14,503



MISTY LAKE

The two completed oil wells on this property were production tested for several months with no indications of a limited reservoir. However, continued production during the winter months was not feasible because of inaccessibility of roads. The gas wells in this area will remain shut in until a gas sales contract can be negotiated.

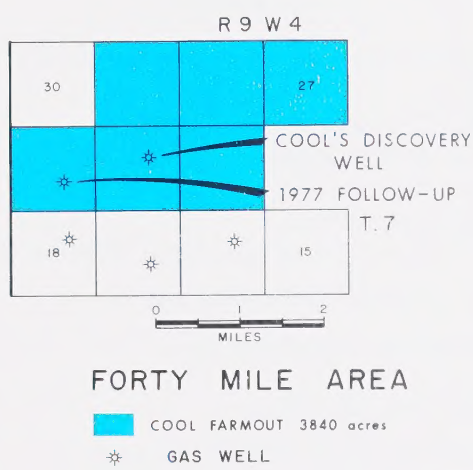
Our present plans include drilling three close in locations to extend the present oil reservoir boundaries and then to run a four mile pipeline to a battery site on an all weather gravel road. These wells will be drilled early in 1977. The Company has a 25 percent working interest in the 8,960 acres.

FORTY MILE COULEE

Two new locations were licensed in early January 1977 at 7-19-7-9 W4th and 6-29-7-9 W4th. The first well was drilled at 7-19-7-9 W4th in late January and completed as a gas well. The Sunburst formation tested 12 feet of sand at a flow rate of 5,170 Mcf. per day with no drawdown on shut in pressures: an absolute open flow potential test was run, resulting in a formation A.O.F. of 14.713 million cubic feet of gas per day. The excellent gas flow encountered in this well enabled us to cancel the second location.

Gas from the discovery well at 10-20-7-9 W4th and from the January 1977 completion is more than adequate to fulfill our 3 million cubic feet per day contract with Canadian Western Natural Gas. After fracturing the 10-20 well, the tests indicated a flow rate of 1.7 million cubic feet per day against 480 pounds back pressure. The gathering system and pipeline are well under way, with initial production to begin about June 1, 1977.

Canadian Obas Oil Limited has a 25 percent working interest in 3,840 acres. The discovery well commands two years of royalty free production.



MINING PROPERTIES

Canadian Obas Oil Limited continued to retain its eight percent interest in seven gold mining properties in British Columbia. During the past two years, most of the work was concentrated on our Texada Island claims. Trenching and stripping continued along the gold shows, but the assays have not justified commercial development to date.

Initial work has been done on the Spuz and Maj claims near Yale, British Columbia. The first assay report shows the best chemical assay carrying 0.88 ounces of gold per ton across a vein width of 1.75 metres. The best grab sample resulted in 1.52 ounces of gold per ton.

The other claims in the Powell River, Williams Lake and Clinton areas have been inactive during the year.

Canadian Obas Oil Limited

Balance Sheets

January 31, 1977 and May 31, 1976

ASSETS	1977	1976
CURRENT ASSETS:		
Cash	**$ 29,715**	$ —
Term deposits	**150,000**	200,000
Accounts receivable	**56,235**	16,983
Drilling deposits and other	**7,187**	9,007
Total current assets	**$ 243,137**	$ 225,990
MINERAL PROPERTIES, at cost	**55,302**	40,576
OIL AND GAS PROPERTIES, at cost, less accumulated depreciation and depletion of $42,956 in 1977 and $16,225 in 1976 (Notes 3 and 7)	**1,383,530**	732,275
GOODWILL, at cost	**10,000**	10,000
	$1,691,969	$1,008,841

LIABILITIES AND SHAREHOLDERS' EQUITY	1977	1976
CURRENT LIABILITIES:		
Bank indebtedness	**$ —**	$ 9,141
Accounts payable	**258,622**	27,511
Accrued liabilities	**32,356**	14,400
Current portion of long-term debt (Note 3)	**271,836**	171,854
Total current liabilities	**$ 562,814**	$ 222,906
LONG-TERM DEBT (Note 3)	**$ 806,904**	$ 462,970
COMMITMENTS (Note 8)		
SHAREHOLDERS' EQUITY (Note 6):		
Common shares, no par value; authorized 5,000,000 shares; outstanding 2,111,610 shares	**$ 613,554**	$ 607,104
Deficit	**(291,303)**	(284,139)
	$ 322,251	$ 322,965
	$1,691,969	$1,008,841

APPROVED BY THE BOARD:

J. Sabo, Director

R. G. Smith, Director

The accompanying notes are an integral part of these balance sheets.

Statements of Changes in Financial Position

For The Periods Ended January 31, 1977 and May 31, 1976

	1977 (Eight Months)	1976 (Twelve Months)
WORKING CAPITAL PROVIDED BY:		
Operations —		
Loss	**$ (7,164)**	$(128,782)
Add items not requiring an outlay of working capital during the periods:		
Depreciation and depletion	**26,731**	10,839
	$ 19,567	$(117,943)
Long-term debt	**343,934**	282,196
Proceeds from disposal of equipment	**40**	13,263
Share subscriptions		
— Stock options exercised	—	15,050
— Convertible debenture	—	300,000
— Proceeds from share subscription receivable	**6,450**	—
	$ 369,991	$ 492,566
WORKING CAPITAL USED FOR:		
Oil and gas development	**$ 672,641**	$ 344,553
Mineral exploration	**14,725**	19,576
Additions to equipment	**5,386**	6,983
Share subscription receivable	—	15,050
Conversion of debenture	—	300,000
Professional fees relating to share issuance	—	2,300
	$ 692,752	$ 688,462
(DECREASE) IN WORKING CAPITAL	**$(322,761)**	$(195,896)
WORKING CAPITAL, BEGINNING OF PERIOD	**3,084**	198,980
WORKING CAPITAL (DEFICIENCY), END OF PERIOD	**$(319,677)**	$ 3,084

The accompanying notes are in integral part of these statements.

Canadian ObaS Oil Limited

Statements of Shareholders' Equity

For The Periods Ended January 31, 1977 and May 31, 1976

	Common Shares		Retained Earnings (Deficit)
	Shares	Amount	
Balance, May 31, 1975	1,836,610	$309,404	$(155,357)
Stock options exercised (Note 6)	35,000	15,050	—
Conversion of debenture (Note 5)	240,000	300,000	—
Professional fees relating to conversion of debenture and stock options exercised	—	(2,300)	—
Loss	—	—	(128,782)
	2,111,610	$622,154	$(284,139)
Less share subscriptions receivable	—	(15,050)	—
Balance, May 31, 1976	2,111,610	$607,104	$(284,139)
Share subscription paid	—	6,450	—
Loss	—	—	(7,164)
Balance, January 31, 1977	2,111,610	$613,554	$(291,303)

The accompanying notes are an integral part of these statements.

Statements of Loss

For The Periods Ended January 31, 1977 and May 31, 1976

	1977 (Eight Months)	1976 (Twelve Months)
REVENUES:		
Oil and gas sales (Note 2)	$316,205	$125,944
Less royalties	92,013	38,388
Net oil and gas sales	$224,192	$ 87,556
Interest on term deposits and other	10,857	17,980
	$235,049	$105,536
EXPENSES:		
Lease operating and maintenance	$ 72,515	$ 35,368
Management salary (Note 8)	34,583	35,000
Interest	64,832	73,012
Depletion and depreciation (Note 1)	26,731	10,839
General and administrative	43,552	80,099
	$242,213	$234,318
Loss (Note 4)	$ 7,164	$128,782
LOSS PER SHARE:		
On weighted average number of shares outstanding	$.003	$.064

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

January 31, 1977 and May 31, 1976

1. SUMMARY OF ACCOUNTING POLICIES

Oil and Gas Properties

The full cost method of accounting is used for oil and gas properties whereby all costs of acquiring, exploring for and developing oil and gas reserves, including pre-production expenses, production equipment and costs of non-producing properties are capitalized. Provision for depreciation and depletion is computed on the unit-of-production method based on the estimated proven oil and gas reserves.

Mineral Properties

Mineral properties represent the costs related to an exploration program being undertaken on certain mineral claims in British Columbia. As of January 31, 1977, the exploration program is still in progress and the mineral reserves have not been fully evaluated. If the exploration proves successful, the costs will be depleted on the unit-of-production method based on estimated proven reserves; if unsuccessful, the costs will be written off.

2. OPERATIONS

Revenue before royalties for the three months from November 1, 1976 to January 31, 1977 averaged approximately $63,000 per month. In the preceding five months, gross revenue approximated $25,000 per month. This increase in revenue is a result of additional wells beginning production late in fiscal 1977.

3. LONG-TERM DEBT

	1977	1976
Bank production loan	$1,078,740	$621,649
Advance from Consolidated Natural Gas Limited	—	13,175
	$1,078,740	$634,824
Less current portion	271,836	171,854
	$ 806,904	$462,970

Bank Production Loan

The bank production loan is evidenced by a demand note. All oil and gas reserves have been assigned to the bank as collateral. The arranged line of credit is $1,291,229. Interest is at 1¼% above prime, and a commitment fee of ¾ of 1% is charged on the unused portion of the line of credit.

Payments ($22,653 principal per month) scheduled after January 31, 1978 were classified as long-term debt upon the advice of the bank that it will not demand repayment as long as the Company is not in default of its obligations.

Advance From Consolidated Natural Gas Limited

The advance was entirely repaid in the 1977 fiscal period.

4. INCOME TAXES

For income tax purposes the following deductions remain available:

Canadian exploration and development	$275,000
Cumulative Canadian exploration	$360,000
Cumulative Canadian development	$961,000
Foreign exploration and development	$ 14,000
Tax depreciation	$156,000
Earned depletion	$517,000

5. CONVERTIBLE DEBENTURES

As of May 31, 1976, $300,000 in 10% convertible debentures, a portion of which were owned by shareholders, were converted into 240,000 common shares at a price of $1.25 per share.

6. STOCK OPTIONS

During fiscal 1976, all outstanding options were exercised at $0.43 per share. Share subscriptions of $8,600 remained outstanding at January 31, 1977 but prior to March 28, 1977 they had all been paid.

7. COMMITMENTS

Consolidated Pipe Lines Company owns and operated the gathering, processing and delivery systems for the Verger and Wintering Hills areas: the producers have committed to minimum throughputs for fifteen years and have granted liens, second to bank assignments, on the sale of gas moved through the systems. In the Verger area (Obas — 23.75%) the minimum is 4,000 MCF. per day at 11¢ per MCF. for the first five years, 9¢ per MCF. for the second five years and 5¢ per MCF. for the final five years. In the Wintering Hills area (Obas — 50%) the minimum is 2,500 MCF. per day at 17¢ per MCF. for the first five years, 14¢ per MCF. for the second five years and 9¢ per MCF. for the final five years. Contracts for gas throughput after the fifteenth year are at 2.5¢ per MCF. for Verger and 5¢ per MCF at Wintering Hills. Producers are jointly and severally liable for all obligations under the contracts.

8. DIRECTORS' AND OFFICERS' REMUNERATION

	1977 (Eight Months)	**1976 (Twelve Months)**
Directors —		
Number	5	5
Remuneration	$ —	$ —
Officers —		
Number	2	2
Remuneration	$34,583	$35,000

Auditors' Report

TO THE SHAREHOLDERS OF
CANADIAN OBAS OIL LIMITED:

We have examined the balance sheets of Canadian Obas Oil Limited (an Alberta corporation) as of January 31, 1977 and May 31, 1976, and the related statements of loss, shareholders' equity and changes in financial position for the eight months ended January 31, 1977, and for the year ended May 31, 1976. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of Canadian Obas Oil Limited as of January 31, 1977 and May 31, 1976, and the results of its operations, and the changes in its financial position for the periods then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Calgary, Alberta
March 28, 1977

ARTHUR ANDERSEN & CO.
Chartered Acountants

COOL

Canadian Obas Oil Limited

Annual Report 1977

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